

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Kingsford	County Dickinson
Audit Date 6/30/06	Opinion Date 9/1/06	Date Accountant Report Submitted to State: 10/26/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

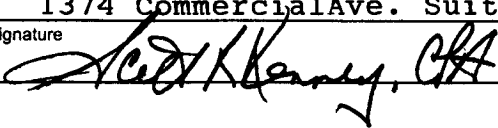
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>		
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).			<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Suite 1		City Crystal Falls	State MI
Accountant Signature 		ZIP 49920	Date 10/26/06

CITY OF KINGSFORD
AUDITED FINANCIAL STATEMENTS
KINGSFORD, MICHIGAN

Fiscal Year Ended June 30, 2006

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SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Kingsford
Kingsford, Michigan 49802

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kingsford, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

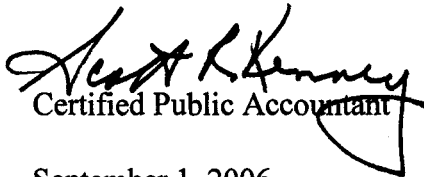
As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingsford, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

September 1, 2006

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 2.3% from a year ago - increasing from \$13.459 million to \$13.772 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$170,000 during the year (1.8% increase). This is attributed to receipt of insurance proceeds from the fire at City Hall offset by the cost of construction. The business-type activities experienced a \$142,000 increase in net assets, primarily as a result of maintaining costs and having an adequate charge structure. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 3,236	\$ 3,972	\$ 960	\$ 1,336	\$ 4,196	\$ 5,308
Noncurrent Assets	<u>9,682</u>	<u>8,936</u>	<u>3,680</u>	<u>3,067</u>	<u>13,362</u>	<u>12,003</u>
Total Assets	\$ 12,918	\$ 12,908	\$ 4,640	\$ 4,403	\$ 17,558	\$ 17,311
Long-Term Debt Outstanding	\$ 2,719	\$ 2,788	\$ 496	\$ 506	\$ 3,214	\$ 3,294
Other Liabilities	<u>347</u>	<u>438</u>	<u>224</u>	<u>120</u>	<u>572</u>	<u>558</u>
Total Liabilities	\$ <u>3,066</u>	\$ <u>3,226</u>	\$ <u>720</u>	\$ <u>626</u>	\$ <u>3,786</u>	\$ <u>3,852</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 7,554	\$ 6,763	\$ 2,318	\$ 1,993	\$ 9,872	\$ 8,756
Restricted	5	5	936	913	941	918
Unrestricted	<u>2,293</u>	<u>2,914</u>	<u>666</u>	<u>871</u>	<u>2,959</u>	<u>3,785</u>
Total Net Assets	\$ 9,852	\$ 9,682	\$ 3,920	\$ 3,777	\$ 13,772	\$ 13,459

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$621,000 for the governmental activities. This represents a decrease of approximately 21.3%. The current level of unrestricted net assets for our governmental activities stands at \$2.293 million, or about 58.32% of expenditures.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program Revenues						
Charges for Services	\$ 95	\$ 93	\$ 660	\$ 778	\$ 755	\$ 871
Operating Grants and Contributions	493	524	0	0	493	524
Capital Grants and Contributions	0	0	0	0	0	0
General Revenues						
Property Taxes	\$ 2,132	\$ 2,030	\$ 0	\$ 0	\$ 2,132	\$ 2,030
State-Shared Revenues	766	639	0	0	766	639
Unrestricted Investment Earnings	498	500	59	33	557	533
Fines and Forfeitures	19	25	0	0	19	25
Reimbursements and Other	31	30	0	0	31	30
Sale of property	43	46	0	0	43	46
Insurance Proceeds	140	727	0	0	140	727
Transfers	<u>(115)</u>	<u>(147)</u>	<u>0</u>	<u>0</u>	<u>(115)</u>	<u>(147)</u>
Total Revenues	\$ 4,102	\$ 4,467	\$ 719	\$ 811	\$ 4,821	\$ 5,278
Program Expenses						
General Government	\$ 616	\$ 402	\$ 0	\$ 0	\$ 616	\$ 402
Public Safety	1,393	1,344	0	0	1,393	1,344
Public Works	1,609	1,662	0	0	1,609	1,662
Insurance and Benefits	109	322	0	0	109	322
Recreation & Culture	101	101	0	0	101	101
Other	0	0	0	0	0	0
Interest on Long-Term Debt	104	142	0	0	104	142
Water & Sewer	<u>0</u>	<u>0</u>	<u>576</u>	<u>570</u>	<u>576</u>	<u>570</u>
Total Expenses	<u>\$ 3,932</u>	<u>\$ 3,973</u>	<u>\$ 576</u>	<u>\$ 570</u>	<u>\$ 4,508</u>	<u>\$ 4,543</u>
Change in Net Assets	\$ 170	\$ 494	\$ 143	\$ 241	\$ 313	\$ 735

The City's net assets continue to remain healthy. The decrease in expenses in the governmental funds and the insurance reimbursement received for the City Hall project contributed to this growth.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Governmental Activities

The City's total governmental revenues decreased by approximately \$365,000 due to the insurance reimbursement received for fire losses in the 2004-2005 year. This was somewhat offset by an increase in 2005-2006 property taxes and state shared revenues.

Cash expenditures increased significantly during the year due to the spending on the City Hall renovation project which totaled slightly more than \$1,000,000. Ordinary operating costs increased only by approximately inflationary rates during the year.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents through the Iron Mountain-Kingsford Sewage Treatment Authority. The Water Fund revenues decreased slightly due to lower water usage than in the past. The expenses in the Water Fund remained nearly unchanged during the year. This resulted in a small increase in the net operating loss of approximately \$15,000. The Sewer Fund revenues fell due to the drop in water usage. Expenses decreased in the Sewer Fund due primarily to the professional engineering service costs incurred in the 2004-2005 year. The net results increased net operating income of more than \$188,000.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2005-2006 include the General Fund, Major Street Fund, Local Street Fund, Small Cities Grant Loan Repayment Fund, Equipment and Capital Fund, Water Utility Fund and Sewer Utility Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

the year. The most significant revenue changes were in Insurance Proceeds which was decreased by \$580,000. Most of the funds for the City Hall Fire were received in the prior fiscal year. These funds were coupled with other City funds and were expended primarily in the current fiscal year. Interest was increased by \$47,000 because of an upturn in investment rates. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2005-2006, the City had nearly \$15,000,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2006 fiscal year exceeded \$6,434,000. These roads are maintained by the City with the costs recorded in the major and local street funds.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2006-2007 calls for an increase on property tax rates to fund the Police and Firemen's Pension, a decrease in the debt millage to repay the bonds on the Public Works Facility and no change in the general operating rate. No change in the operating rate can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions. The Police and Fireman's Pension expense is calculated by actuarially determined amounts and must be funded per Michigan statute.

As discussed above, the City substantially completed the City Hall repair and renovation and re-occupied the City hall during the fiscal year. The City Hall fire related expenses and subsequent renovation totaled approximately \$1.5 million. It was funded over three fiscal years and paid for with more than \$889,000 of insurance proceeds with the balance of the project's cost taken from the City's reserves.

In addition, the City extended and improved its water system during the year with the anticipation that additional users will be added to the system in the future. These costs totaled nearly \$500,000.

Contacting the City's Management

This financial report is intended to provide the citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the manager's office.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2006

	PRIMARY GOVERNMENT			
	GOVERNMENTAL	BUSINESS-TYPE		COMPONENT
	ACTIVITIES	ACTIVITIES	TOTAL	UNIT
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 2,267,320	\$ 804,460	\$ 3,071,780	\$ 49,595
Receivables - net	651,361	155,986	807,347	7,200
Investments	0	0	0	302,969
Prepaid expenses	0	0	0	10,581
Internal balances	317,323	0	317,323	0
TOTAL CURRENT ASSETS	\$ 3,236,004	\$ 960,446	\$ 4,196,450	\$ 370,345
RESTRICTED ASSETS - Cash and equivalents	\$ 5,136	\$ 855,605	\$ 860,741	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ 9,676,932	\$ 2,824,002	\$ 12,500,934	\$ 901,316
TOTAL ASSETS	\$ 12,918,072	\$ 4,640,053	\$ 17,558,125	\$ 1,271,661
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 56,160	\$ 13,099	\$ 69,259	\$ 9,697
Accrued and other liabilities	74,930	73,950	148,880	41,878
Interprogram payables	171,206	127,421	298,627	0
Current part of non-current liabilities	45,000	10,000	55,000	0
TOTAL CURRENT LIABILITIES	\$ 347,296	\$ 224,470	\$ 571,766	\$ 51,575
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 46,031	\$ 46,031	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 116,951	\$ 0	\$ 116,951	\$ 23,617
Bonds payable	2,122,600	0	2,122,600	0
Revenue bonds payable	0	449,969	449,969	0
Unfunded accrued actuarial pension liability	479,115	0	479,115	0
TOTAL NON-CURRENT LIABILITIES	\$ 2,718,666	\$ 449,969	\$ 3,168,635	\$ 23,617
TOTAL LIABILITIES	\$ 3,065,962	\$ 720,470	\$ 3,786,432	\$ 75,192
NET ASSETS				
Invested in capital assets, net of related debt	\$ 7,554,332	\$ 2,318,002	\$ 9,872,334	\$ 901,316
Restricted for				
Forfeitures	5,136	0	5,136	0
Debt service	0	46,031	46,031	0
Repair and reconstruction	0	809,574	809,574	0
System improvements	0	80,000	80,000	0
Unrestricted	2,292,642	665,976	2,958,618	295,153
TOTAL NET ASSETS	\$ 9,852,110	\$ 3,919,583	\$ 13,771,693	\$ 1,196,469

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 615,502	\$ 0	\$ 0	\$ 0	\$ (615,502)		\$ (615,502)	
Public safety	1,393,268	0	0	0	(1,393,268)		(1,393,268)	
Public works	1,609,284	95,377	492,710	0	(1,021,197)		(1,021,197)	
Insurance and benefits	108,545	0	0	0	(108,545)		(108,545)	
Recreation and culture	101,162	0	0	0	(101,162)		(101,162)	
Other	401	0	0	0	(401)		(401)	
Interest on long-term debt	104,228	0	0	0	(104,228)		(104,228)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 3,932,389	\$ 95,377	\$ 492,710	\$ 0	\$ (3,344,302)		\$ (3,344,302)	
Business-Type Activities								
Water	\$ 513,555	\$ 408,784	\$ 0	\$ 0		\$ (104,771)	\$ (104,771)	
Sewer	62,476	250,736	0	0		188,260	188,260	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 576,031	\$ 659,520	\$ 0	\$ 0		\$ 83,489	\$ 83,489	
Component Unit - Kingsford Housing Commission	\$ 500,275	\$ 176,647	\$ 99,286	\$ 90,466				\$ (133,876)
GENERAL REVENUES								
Property taxes					\$ 2,132,138	\$ 0	\$ 2,132,138	\$ 0
State shared revenues and grants					766,312	0	766,312	0
Unrestricted investments earnings					497,571	58,996	556,567	9,066
Fines and forfeitures					18,702	0	18,702	0
Reimbursements					25,641	0	25,641	0
Other					5,195	0	5,195	3,075
SPECIAL ITEMS								
Gain (loss) on sale of property					42,793	0	42,793	1,557
Insured loss proceeds					140,496	0	140,496	0
TRANSFERS					(114,615)	0	(114,615)	0
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ 3,514,233	\$ 58,996	\$ 3,573,229	\$ 13,698
CHANGE IN NET ASSETS								
Net assets - beginning					\$ 169,931	\$ 142,485	\$ 312,416	\$ (120,178)
					9,682,179	3,777,098	13,459,277	1,316,647
NET ASSETS - ENDING					\$ 9,852,110	\$ 3,919,583	\$ 13,771,693	\$ 1,196,469

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND	EQUIPMENT AND CAPITAL FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS							
Cash and equivalents	\$ 1,217,784	\$ 492,157	\$ 1,048	\$ 491,038	\$ 20,709	\$ 44,584	\$ 2,267,320
Accounts/notes receivable	24,657	0	0	345,737	0	0	370,394
Due from other funds	239,073	0	78,250	0	0	0	317,323
Due from other governmental units	202,880	56,959	21,128	0	0	0	280,967
Restricted assets	<u>5,136</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,136</u>
TOTAL ASSETS	\$ <u>1,689,530</u>	\$ <u>549,116</u>	\$ <u>100,426</u>	\$ <u>836,775</u>	\$ <u>20,709</u>	\$ <u>44,584</u>	\$ <u>3,241,140</u>
LIABILITIES							
Accounts payable	\$ 54,802	\$ 873	\$ 485	\$ 0	\$ 0	\$ 0	\$ 56,160
Accrued payroll expense	39,724	522	364	0	0	30	40,640
Due to other funds	0	122,762	40,318	0	8,096	0	171,176
Deferred revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>345,737</u>	<u>0</u>	<u>0</u>	<u>345,737</u>
TOTAL LIABILITIES	\$ 94,526	\$ 124,157	\$ 41,167	\$ 345,737	\$ 8,096	\$ 30	\$ 613,713
FUND BALANCES							
Reserved for Forfeitures	\$ 5,136	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,136
Unreserved	<u>1,589,868</u>	<u>424,959</u>	<u>59,259</u>	<u>491,038</u>	<u>12,613</u>	<u>44,554</u>	<u>2,622,291</u>
TOTAL FUND EQUITY	\$ <u>1,595,004</u>	\$ <u>424,959</u>	\$ <u>59,259</u>	\$ <u>491,038</u>	\$ <u>12,613</u>	\$ <u>44,554</u>	\$ <u>2,627,427</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>1,689,530</u>	\$ <u>549,116</u>	\$ <u>100,426</u>	\$ <u>836,775</u>	\$ <u>20,709</u>	\$ <u>44,584</u>	\$ <u>3,241,140</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balance - total governmental funds	\$ 2,627,427
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	9,676,932
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(2,167,600)
Accrued interest on bonds not reported	(34,320)
Accumulated employee vacation and personal pay not used in current period	(116,951)
Unfunded accrued actuarial pension liability not payable in the current period	(479,115)
Eliminate deferred income recognition of notes receivable	<u>345,737</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>9,852,110</u></u>

CITY OF KINGSFORD
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2006

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND	EQUIPMENT AND CAPITAL FUND	NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES							
Property taxes	\$ 1,986,987	\$ 0	\$ 0	\$ 0	\$ 0	\$ 145,151	\$ 2,132,138
State shared revenues and grants	766,312	364,755	127,955	0	0	0	1,259,022
Licenses and permits	211	0	0	0	0	0	211
Fines and forfeitures	18,702	0	0	0	0	0	18,702
Charges for services	95,377	0	0	0	0	0	95,377
Interest and rentals	453,404	12,817	89	26,654	983	3,624	497,571
Sale of property and supplies	42,793	0	0	0	0	0	42,793
Refunds and reimbursements	25,641	0	0	0	0	0	25,641
Insurance proceeds	140,496	0	0	0	0	0	140,496
Other	4,984	0	0	77,905	0	0	82,889
TOTAL REVENUES	\$ 3,534,907	\$ 377,572	\$ 128,044	\$ 104,559	\$ 983	\$ 148,775	\$ 4,294,840
EXPENDITURES							
Current							
General government	\$ 492,358	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,399	\$ 500,757
Public safety	1,374,674	0	0	0	0	0	1,374,674
Public works	940,326	187,637	150,489	0	0	0	1,278,452
Recreation	101,162	0	0	0	0	0	101,162
Insurance and benefits	132,377	0	0	0	0	0	132,377
Other	401	0	0	0	0	0	401
Capital outlay	0	96,467	2,673	0	1,111,244	0	1,210,384
Debt service	0	0	0	0	0	144,861	144,861
TOTAL EXPENDITURES	\$ 3,041,298	\$ 284,104	\$ 153,162	\$ 0	\$ 1,111,244	\$ 153,260	\$ 4,743,068
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES							
	\$ 493,609	\$ 93,468	\$ (25,118)	\$ 104,559	\$ (1,110,261)	\$ (4,485)	\$ (448,228)
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ 0	\$ 0	\$ 79,590	\$ 0	\$ 1,090,000	\$ 7,850	\$ 1,177,440
Transfers (out)	(1,213,805)	(78,250)	0	0	0	0	(1,292,055)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,213,805)	\$ (78,250)	\$ 79,590	\$ 0	\$ 1,090,000	\$ 7,850	\$ (114,615)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES							
	\$ (720,196)	\$ 15,218	\$ 54,472	\$ 104,559	\$ (20,261)	\$ 3,365	\$ (562,843)
Fund balance - beginning	2,315,200	409,741	4,787	386,479	32,874	41,189	3,190,270
FUND BALANCE - JUNE 30	\$ 1,595,004	\$ 424,959	\$ 59,259	\$ 491,038	\$ 12,613	\$ 44,554	\$ 2,627,427

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Net change in fund balance - total governmental funds	\$ (562,843)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.	746,214
Eliminate effect of reduction of deferred revenue in governmental fund not recognized in the Statement of Activities	(77,905)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).	40,000
Decrease in accrued interest not recorded as expenditure in governmental funds but recorded in Statement of Activities	633
Decreases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities	14,077
Decrease in unfunded accrued actuarial pension liability not requiring the use of current financial resources	<u>9,755</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>169,931</u></u>

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 712,927	\$ 91,533	\$ 804,460
Accounts receivable	<u>61,661</u>	<u>94,325</u>	<u>155,986</u>
TOTAL CURRENT ASSETS	\$ 774,588	\$ 185,858	\$ 960,446
Restricted Assets	\$ 104,225	\$ 751,380	\$ 855,605
Property, plant and equipment:			
System assets	\$ 5,161,124	\$ 532,207	\$ 5,693,331
Less accumulated depreciation	<u>(2,812,326)</u>	<u>(57,003)</u>	<u>(2,869,329)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ <u>2,348,798</u>	\$ <u>475,204</u>	\$ <u>2,824,002</u>
TOTAL ASSETS	\$ 3,227,611	\$ 1,412,442	\$ 4,640,053
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 12,889	\$ 210	\$ 13,099
Accrued payroll expenses	17,267	61	17,328
Accrued interest	5,693	0	5,693
Due to other funds	41,189	86,232	127,421
Due to other governmental units	0	50,929	50,929
Current portion of long term debt	<u>10,000</u>	<u>0</u>	<u>10,000</u>
TOTAL CURRENT LIABILITIES	\$ 87,038	\$ 137,432	\$ 224,470
Long Term Debt - Bonds payable	\$ <u>496,000</u>	\$ <u>0</u>	\$ <u>496,000</u>
TOTAL LIABILITIES	\$ 583,038	\$ 137,432	\$ 720,470
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,842,798	\$ 475,204	\$ 2,318,002
Restricted for debt service	46,031	0	46,031
Restricted for repairs and reconstruction	104,225	751,380	855,605
Restricted for system improvements	80,000	0	80,000
Unrestricted	<u>571,519</u>	<u>48,426</u>	<u>619,945</u>
TOTAL NET ASSETS	\$ <u><u>2,644,573</u></u>	\$ <u><u>1,275,010</u></u>	\$ <u><u>3,919,583</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2006

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Charges for services:			
Metered sales and service charges	\$ 401,729	\$ 246,329	\$ 648,058
Taps, thaws and shutoffs	4,467	70	4,537
Late payment penalties	<u>2,588</u>	<u>4,337</u>	<u>6,925</u>
TOTAL OPERATING REVENUES	\$ 408,784	\$ 250,736	\$ 659,520
OPERATING EXPENSES			
Personal services	\$ 192,160	\$ 26,352	\$ 218,512
Contractual services	26,492	7,337	33,829
Utilities	46,531	1,129	47,660
Equipment rental	33,229	8,280	41,509
Supplies	19,042	2,094	21,136
Other services and charges	13,594	4,642	18,236
Depreciation	<u>159,624</u>	<u>12,642</u>	<u>172,266</u>
TOTAL OPERATING EXPENSES	\$ 490,672	\$ 62,476	\$ 553,148
NET OPERATING INCOME (LOSS)	\$ (81,888)	\$ 188,260	\$ 106,372
NON-OPERATING GAINS/LOSSES			
Interest earned	\$ 32,602	\$ 26,394	\$ 58,996
Interest expense	<u>(22,883)</u>	<u>0</u>	<u>(22,883)</u>
CHANGE IN NET ASSETS	\$ (72,169)	\$ 214,654	\$ 142,485
Net assets - beginning	<u>2,716,742</u>	<u>1,060,356</u>	<u>3,777,098</u>
NET ASSETS - ENDING	\$ <u>2,644,573</u>	\$ <u>1,275,010</u>	\$ <u>3,919,583</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2006

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 395,570	\$ 234,071	\$ 629,641
Payments to suppliers	(138,703)	(2,997)	(141,700)
Payments to or on behalf of employees	(190,893)	(27,205)	(218,098)
Internal activity-payments from other funds	<u>14,699</u>	<u>68,413</u>	<u>83,112</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 80,673	\$ 272,282	\$ 352,955
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (32,995)	\$ 0	\$ (32,995)
Purchases of capital assets	(487,350)	0	(487,350)
Reduction of funding restricted accounts	<u>(4,114)</u>	<u>(292,954)</u>	<u>(297,068)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (524,459)	\$ (292,954)	\$ (817,413)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>32,602</u>	\$ <u>26,394</u>	\$ <u>58,996</u>
NET INCREASE (DECREASE) IN CASH	\$ (411,184)	\$ 5,722	\$ (405,462)
Cash and equivalents - beginning	<u>1,124,111</u>	<u>85,811</u>	<u>1,209,922</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>712,927</u></u>	\$ <u><u>91,533</u></u>	\$ <u><u>804,460</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (81,888)	\$ 188,260	\$ 106,372
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	159,624	12,642	172,266
Change in Assets and Liabilities			
Receivables - net	(13,213)	(16,665)	(29,878)
Accounts payable	184	(3,437)	(3,253)
Accrued payroll expense	1,267	(853)	414
Due to other funds	14,699	68,413	83,112
Due to other governmental units	<u>0</u>	<u>23,922</u>	<u>23,922</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>80,673</u></u>	\$ <u><u>272,282</u></u>	\$ <u><u>352,955</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	<u>TRUST FUND TYPE</u>		<u>AGENCY FUND TYPE</u>
	<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>	<u>Tax Collections</u>
ASSETS			
Cash and equivalents	\$ 39,115	\$ 19,878	\$ 8,597
Interest and dividend receivable	50,750	0	0
Investments	9,313,787	0	0
Due from other governmental units	<u>0</u>	<u>0</u>	<u>856</u>
TOTAL ASSETS	\$ 9,403,652	\$ 19,878	\$ 9,453
LIABILITIES			
Accounts payable	\$ 0	\$ 0	\$ 0
Due to other funds	0	18,583	113
Due to other governmental units	0	0	855
Security and performance deposits	0	0	8,485
Deferred revenue	<u>0</u>	<u>1,295</u>	<u>0</u>
TOTAL LIABILITIES	\$ <u>0</u>	\$ <u>19,878</u>	\$ <u><u>9,453</u></u>
NET ASSETS			
Held in trust for pension benefits	\$ <u><u>9,403,652</u></u>		
Held in trust for retiree insurance benefits		\$ <u><u>0</u></u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2006

		<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>
ADDITIONS			
Contributions			
Tax collections	\$	203,710	\$ 0
Employer		0	114,615
Plan members		<u>63,440</u>	<u>57,095</u>
Total Contributions	\$	267,150	\$ 171,710
Investment Income			
Net appreciation (depreciation) in fair value of investments	\$	277,222	\$ 0
Interest and dividends		304,908	70
Less investment expense		<u>(45,779)</u>	<u>0</u>
Net Investment Income	\$	<u>536,351</u>	\$ <u>70</u>
TOTAL ADDITIONS	\$	803,501	\$ 171,780
DEDUCTIONS			
Benefits paid	\$	459,292	\$ 171,780
Administrative expense		<u>10,471</u>	<u>0</u>
TOTAL DEDUCTIONS	\$	<u>469,763</u>	\$ <u>171,780</u>
NET INCREASE	\$	333,738	\$ 0
NET ASSETS HELD IN TRUST FOR PENSION OR RETIREE INSURANCE BENEFITS			
Beginning	\$	<u>9,069,914</u>	\$ <u>0</u>
ENDING	\$	<u><u>9,403,652</u></u>	<u><u>0</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2006

KINGSFORD
HOUSING
COMMISSION

ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$	49,595
Accounts receivable		7,200
Investments		302,969
Prepaid expenses		<u>10,581</u>
TOTAL CURRENT ASSETS	\$	370,345
NONCURRENT ASSETS		
Capital assets	\$	4,029,327
Less accumulated depreciation		<u>(3,128,011)</u>
TOTAL NON CURRENT ASSETS	\$	<u>901,316</u>
TOTAL ASSETS	\$	1,271,661
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$	9,697
Accrued liabilities		<u>41,878</u>
TOTAL CURRENT LIABILITIES	\$	51,575
NON-CURRENT LIABILITIES	\$	<u>23,617</u>
TOTAL LIABILITIES	\$	75,192
NET ASSETS		
Investment in capital assets, net of related debt	\$	901,316
Unrestricted net assets		<u>295,153</u>
NET ASSETS	\$	<u><u>1,196,469</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
COMPONENT UNIT
Year ended June 30, 2006

	<u>KINGSFORD HOUSING COMMISSION</u>
OPERATING REVENUES	
Tenant revenue	\$ 176,647
Program grants - subsidies	99,286
Other	<u>3,075</u>
TOTAL OPERATING REVENUES	\$ 279,008
OPERATING EXPENSES	
Administration	\$ 92,520
Tenant services	825
Utilities	47,124
Maintenance	114,629
General	30,087
Extraordinary maintenance	14,212
Other	250
Depreciation	<u>200,628</u>
TOTAL EXPENDITURES	\$ <u>500,275</u>
OPERATING (LOSS)	\$ (221,267)
OTHER INCOME (EXPENSES)	
Interest income	\$ 9,066
Capital grants	90,466
Gain (loss) on sale of fixed assets	<u>1,557</u>
TOTAL OTHER INCOME (EXPENSES)	\$ <u>101,089</u>
CHANGE IN NET ASSETS	\$ (120,178)
Net assets - beginning	<u>1,316,647</u>
NET ASSETS - ENDING	\$ <u><u>1,196,469</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
COMPONENT UNIT
Year ended June 30, 2006

	<u>KINGSFORD HOUSING COMMISSION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 173,618
Receipts from grants and subsidies	98,314
Payments to suppliers	(128,322)
Payments to or on behalf of employees	(155,320)
Payment in lieu of taxes	(11,287)
Other receipts	<u>3,075</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (19,922)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants	\$ 90,466
Gross proceeds from sale of capital grants	5,000
Acquisition of capital assets	<u>\$ (92,507)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 2,959
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	\$ (8,688)
Investment income	<u>8,882</u>
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ 194
NET INCREASE (DECREASE) IN CASH	\$ (16,769)
Cash and equivalents - beginning	<u>66,364</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>49,595</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (221,267)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation	200,628
Change in Assets and Liabilities	
Receivables - net	(4,001)
Prepaid expenses	1,424
Accounts payable	(1,615)
Accrued liabilities	<u>4,909</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>(19,922)</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kingsford (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City does not have any component units that are blended.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Kingsford, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Kingsford Housing Commission

The Kingsford Housing Commission (KHC), which was established in 1972 under criteria established for low income housing programs by the United States Department of Housing and Urban Development is governed by a board of commissioners appointed by the City Council. Its purpose is to provide low cost housing to elderly and low income families in the City of Kingsford, Michigan. The separately issued audited financial statements of the Kingsford Housing Commission are available at its offices at 1025 Woodward Avenue, Kingsford, MI 49802.

JOINTLY GOVERNED ORGANIZATIONS

Joint Sewage Authority

The Iron Mountain-Kingsford Sewage Treatment Authority (Authority), was formed in 1960 under provisions established by the joint cooperation of the Cities of Iron Mountain and Kingsford, Michigan. The Plant operates under a board of commissioners consisting of the city manager of each City as well as a member appointed by the respective mayors of the Cities.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City remits a portion of its metered sewer utility collections to the Authority. The City receives a collection stipend from the Authority of \$450 per month. The City also retains all sewer tap fees and service charges collected.

The audited financial statements of the Joint Sewage Authority are available at the Kingsford City Offices located at 305 S. Carpenter Avenue, Kingsford, MI 49802.

Dickinson County Solid Waste Management Authority

The City of Kingsford along with other units of government in Dickinson County, Michigan jointly operate the Dickinson County Solid Waste Management Authority (DCSWMA). All of the financial operations of DCSWMA are recorded in the records of the County of Dickinson, Michigan. The City's appropriation to DCSWMA for the year was \$127,241.

The audit report for DCSWMA for the year ended June 30, 2006, is available at its offices at W-7702 US 2, Iron Mountain, MI 49801.

Government-Wide and Fund Financial Statements

The government-wide statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied July 1 become delinquent on the next August 15th.

Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end. Since it is felt that certain delinquent taxes are not fully collectible, a reserve for uncollectible taxes of \$422 has been recorded in the City's General Fund.

The Taxable Value of the 2005-2006 taxable property is \$112,297,982. The City's total millage was 17.613 mills for operations, 1.826 mills for police and fire pension and 1.301 mills for debt service yielding tax levies of \$1,961,177, \$203,322, and \$144,864 respectively. The tax collection revenues as recorded in the funds vary slightly because of revenue recognition policies explained above and the adverse settlement of various property tax appeals from prior years.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Major Streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on Local Streets.

The Small Cities Grant Loan Repayment Fund accounts for the loans to businesses and related repayment activities to enhance economic development.

The Equipment and Capital Fund is used to account for receipts (primarily transfers) and capital project and equipment expenditures on behalf of the other governmental funds.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g.,

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments– Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables– In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items– Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets– Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the government has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the government in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General/Other Administration	66,993	65,970	1,023	2
General/Treasurer	69,885	68,320	1,565	2
General/Sidewalk	18,367	12,325	6,042	49
General/Sanitation	256,305	243,940	12,365	5
Major Streets/Traffic Service	3,991	0	3,991	~
Local Streets/Traffic Services	902	0	902	~
Equipment and Capital/City Hall	1,055,391	500,000	555,391	111

NOTE B - CASH AND INVESTMENTS

The City maintains segregated cash and investment accounts which are specific to the fund to which they are available. Deposits and investments are stated at market in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31.

At year end, the carrying amount of the City's deposits (checking, savings, money market and certificates of deposit) was \$ 3,932,521. The City's deposits are in accordance with statutory authority. The bank balance that is uninsured and uncollateralized is \$3,528,890.

INVESTMENTS

Statutes of the State of Michigan authorize the City to invest in various bank deposit accounts and certain securities. There are no apparent provisions of the statutes requiring that the balances of such investments be partially or fully collateralized with pledged securities of the investee bank, etc.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE B - CASH AND INVESTMENTS (CONTINUED)

The City held such investments during the year, including those of the pension trust which is authorized to invest in various instruments in accordance with the provisions of Act 345 of the State of Michigan's Public Acts of 1937 establishing a municipally administered Police and Firemen's Retirement System.

As of June 30, 2006, the pension trust investments consisted of obligations of the United States Treasury, some domestic corporations and common stocks of U.S. corporations. These investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
Cash and equivalent	\$ 428,297	\$ 0	\$ 0
U.S. Treasury	2,446,441	0	0
Corporate bonds	881,772	0	0
Corporate stocks	<u>5,557,327</u>	<u>0</u>	<u>0</u>
TOTALS	\$ 9,313,788	\$ 0	\$ 0

NOTE C - PENSION PLANS

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

On July 1, 2001, the City adopted employees' Pension Plan B-3 of the Municipal Employees' Retirement System for all eligible employees and elected participation in Benefits E and E-2 with F55 waiver. The plan is a agent multiple-employer pension plan. Normal retirement benefits are paid employees retiring at age 60 with 10 or more years of service. The F55 waiver allows a full pension to be paid to retirees less than 60 years old if they have attained the age of 55 and have 15 or more years of credited service. The provisions of the pension plan include that a maximum of 80% of Final Average Compensation is used to determine pension benefit values.

NOTE C - PENSION PLANS (CONTINUED)

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2005.

UNFUNDED ACTUARIAL ACCRUED LIABILITY	\$ 479,115
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Annual required contribution	\$ 82,368
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On July 1, 1960 the City adopted a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 1937, as amended. The retirement system covers all full time employees of the City's public safety department. The Police and Firemen's Pension Plan (P&FPP) is a single employer defined benefit pension plan administered by the City of Kingsford Police and Firemen Pension Board. P&FPP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries retiring after January 1, 1997 on each January 1 at the rate of 2.5% per year. The financial reports for P&FPP are

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE C - PENSION PLANS (CONTINUED)

issued as part of the City of Kingsford's annual financial reports and include plan financial statements and required supplementary disclosures.

ACCRUED ACTUARIAL LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2005.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,067,835
Terminated employees not yet receiving benefits	0
Current employees:	
Accumulated employee contributions including	
allocated investment income	679,383
Future retirement health benefits	503,081
Employer financed	<u>6,579,662</u>
 TOTAL ACTUARIAL ACCRUED LIABILITY	 \$ 8,829,961
 Net Assets Available for benefits, at actuarial value	 <u>9,399,300</u>
 (OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	 \$ (569,339) =====

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2006
 Annual required contribution	 \$ 222,526

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE D - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables at June 30, 2006, follows:

Receivable	Payable	Amount
General	Major Street	\$ 44,512
General	Local Street	40,318
General	Land Sales	30
General	Equipment and Capital	8,096
General	Water Utility	41,189
General	Sewer Utility	86,232
General	Tax Collection	113
General	Retiree Health	18,583
Local Streets	Major Streets	78,250

NOTE E - FIXED ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital Assets Being Depreciated				
Land	\$ 753,416	\$ 0	\$ 0	\$ 753,416
Buildings	5,589,325	1,058,918	0	6,648,243
Machinery and Equipment	1,664,015	52,325	0	1,716,340
Infrastructure	6,337,832	96,467	0	6,434,299
Subtotal	\$ 14,344,588	\$ 1,207,710	\$ 0	\$ 15,552,298
Less Accumulated Depreciation for				
Buildings	\$ 2,062,419	\$ 113,489	\$ 0	\$ 2,175,908
Machinery and Equipment	1,137,859	72,017	0	1,209,876
Infrastructure	2,213,591	275,991	0	2,489,582
Subtotal	\$ 5,413,869	\$ 461,497	\$ 0	\$ 5,875,366
Governmental Activities				
Capital Assets--Net of Depreciation	<u>\$ 8,930,719</u>	<u>\$ 746,213</u>	<u>\$ 0</u>	<u>\$ 9,676,932</u>

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE E - FIXED ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Sewer System	\$ 532,207	\$ 0	\$ 0	\$ 532,207
Water System	4,673,774	487,350	0	5,161,124
Subtotal	\$ 5,205,981	\$ 487,350	\$ 0	\$ 5,693,331
Less Accumulated Depreciation for				
Sewer System	\$ 44,360	\$ 12,642	\$ 0	\$ 57,002
Water System	2,652,703	159,624	0	2,812,327
Subtotal	\$ 2,697,063	\$ 172,266	\$ 0	\$ 2,869,329
Business Type Activities				
Capital Assets--Net of Depreciation	<u>\$ 2,508,918</u>	<u>\$ 315,084</u>	<u>\$ 0</u>	<u>\$ 2,824,002</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 114,745
Public Safety	18,594
Public Works	<u>328,158</u>
Total Governmental Activities	<u>\$ 461,497</u>
Business-Type Activities	
Water	\$ 159,624
Sewer	<u>12,642</u>
Total Business-Type Activities	<u>\$ 172,266</u>

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE F - FIRST SERIES BOND OF KINGSFORD WATER SUPPLY SYSTEM REVENUE BOND

On July 18, 1995, the City of Kingsford issued serial revenue bonds in the amount of \$676,000 for improvements to its water supply system. A retirement schedule and a description of the bonds is below:

Payable Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2006-2007	\$ 11,385	\$ 10,000	\$ 11,160	\$	32,545
2007-2008	11,160	10,000	10,935		32,095
2008-2009	10,935	10,000	10,710		31,645
2009-2010	10,710	10,000	10,485		31,195
2010-2011	10,485	15,000	10,148		35,633
2011+	<u>127,260</u>	<u>451,000</u>	<u>117,112</u>		<u>695,372</u>
TOTALS	\$ 181,935	\$ 506,000	\$ 170,550	\$	858,485

In 1995, the City completed a water system upgrade and expansion. The project was financed with revenue bonds. The bond was purchased in its entirety by the Rural Development Agency of the United States Department of Agriculture. This bond will be repaid with the revenues generated by charges to water customers. Principal repayments are due annually on each October 1, through 2034. Interest is paid semi-annually on October 1 and April 1 of each year at a rate of 4.5%.

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND - PUBLIC WORKS BUILDING

The City issued an unlimited tax general obligation bond to the Rural Development Agency of the US Department of Agriculture. The proceeds were being used to construct a replacement Public Works facility for the City. The loan is due in annual installments as set forth in the Schedule of Debt and Interest on each March 1, through 2028 with interest payable at 4.75%. The cumulative debt service schedule is below:

Payable Fiscal Year	March 1		September 1		Total
	Interest	Principal	Interest		
2006-2007	\$ 51,481	\$ 45,000	\$ 51,481	\$	147,962
2007-2008	50,412	45,000	50,412		145,824
2008-2009	49,343	50,000	49,343		148,686
2009-2010	48,156	50,000	48,156		146,312
2010-2011	46,968	60,000	46,968		153,936
2011+	<u>457,170</u>	<u>1,917,600</u>	<u>457,170</u>		<u>2,831,940</u>
TOTALS	\$ 703,530	\$ 2,167,600	\$ 703,530	\$	3,574,660

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE G - UNLIMITED TAX GENERAL OBLIGATION BOND (CONTINUED)

The bond was purchased in its entirety by the Rural Development Agency of the US Department of Agriculture. This bond will be repaid with annual tax collections that will vary in rate to insure coverage of its annual debt responsibility. Principal repayments are due annually on each March 1, through 2028. Interest is paid semi-annually on March 1 and September 1 of each year at a rate of 4.75%.

NOTE H - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2006, is \$108,194, \$358,255 and \$20,053 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$28,702 as of June 30, 2006. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of leave as follows:

Public Safety Department Employees:

Sick Leave:

Covered employees may accumulate an unlimited amount of sick leave. Fifty percent (50%) of the first 1000 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1977 in which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE H - COMPENSATED ABSENCES (continued)

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 36 - 216 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All employees except department heads must use their personal time accrual during the calendar year or forfeit the benefit. Department heads are granted four personal days at the beginning of each calendar year. All time must be taken prior to February of the succeeding year or the benefit will be forfeited.

Public Works Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 100 days of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in which case they will be required to work until retirement or death in order to qualify for the payment of the accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are entitled to three personal leave days per calendar year. Such days are charged to accumulated sick time when taken. Department heads are entitled to four personal leave days per calendar year and such days are charged to accumulated sick time when taken.

All Other City Employees:

Sick Leave:

Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE H - COMPENSATED ABSENCES (continued)

All Other City Employees (continued):

which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. Such days are charged to accumulated sick time when taken.

Department heads are granted four personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All personal leave days taken are charged to the employee's accumulated sick time.

NOTE I - RETIREES HOSPITAL AND MEDICAL TRUST FUND

Pursuant to Council resolution, the City has provided hospital and medical insurance coverage for qualifying retired employees since October 15, 1981 and has accounted for such transactions within the Retirees Hospital and Medical Trust Fund.

Retired employees that are 62 years of age or greater are entitled to purchase health insurance through the City's health plan with a substantial portion of the cost being paid by the City. Retired employees that are less than 62 years of age are entitled to purchase health insurance through the City's health plan with the employee bearing a substantial portion of the cost.

During the 2005-2006 year, the City took action to amend its previous funding level of this trust fund to its cost on "pay as you go basis". The 2005-2006 contribution was \$170,580. The City has not had an actuarial determination made of the expected future liability for this benefit. No liability is reflected in the financial statements for this amount since the aggregated plan is presently overfunded.

The retiree health benefits for the Public Safety Officers are paid directly through the pension plan. As such, the plan will absorb the Public Safety portion of the cost.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE J - SEWAGE DISPOSAL AGREEMENT

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by an ordinance which provides for the sewer rates, minimum monthly charges and a monthly collection fee for billing services. These rates can be adjusted periodically through ordinance amendments.

NOTE K - RISK MANAGEMENT

The City of Kingsford is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Kingsford maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 1,770,850	\$ 1,770,850	\$ 2,315,200	\$ 544,350
Resources (Inflows)				
Property taxes	1,981,720	1,981,720	1,986,987	5,267
Federal grants	0	0	0	0
State shared revenues and grants	653,184	653,184	766,312	113,128
Licenses and permits	0	0	211	211
Fines and forfeitures	13,000	13,000	18,702	5,702
Charges for services	82,000	82,000	95,377	13,377
Interest and rentals	437,276	437,276	453,404	16,128
Sale of property and supplies	40,000	40,000	42,793	2,793
Refunds and reimbursements	10,260	10,260	25,641	15,381
Insurance claim	734,200	734,200	140,496	(593,704)
Other	1,500	1,500	4,984	3,484
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 5,723,990	\$ 5,723,990	\$ 5,850,107	\$ 126,117
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 31,800	\$ 31,800	\$ 27,127	\$ 4,673
City manager	101,300	101,300	95,618	5,682
Other administration	65,970	65,970	66,993	(1,023)
Elections	7,480	7,480	5,243	2,237
Assessor/Board of review	73,585	73,585	61,975	11,610
Clerk	115,555	115,555	99,354	16,201
Treasurer	68,320	68,320	69,885	(1,565)
City hall, property and grounds	785,350	785,350	66,163	719,187
Public Safety	1,393,790	1,393,790	1,374,674	19,116
Public Works				
Planning	6,625	6,625	483	6,142
Maintenance	398,185	398,185	356,182	42,003
Alleys	5,725	5,725	1,121	4,604
Sidewalks	12,325	12,325	18,367	(6,042)
Christmas decorations	8,510	8,510	5,371	3,139
Easton environmental study	1,085	1,085	0	1,085
Motor vehicle pool	121,560	121,560	118,911	2,649
Street supplies	65,500	65,500	53,651	11,849
Street lighting	49,190	49,190	46,513	2,677
Sanitation	243,940	243,940	256,305	(12,365)
Rubbish	93,190	93,190	83,422	9,768
Parks and Recreation	101,305	101,305	101,162	143
Insurance and Benefits	141,980	141,980	132,377	9,603
Leases and Rentals	3,500	3,500	401	3,099
Transfers to other funds	1,224,855	1,224,855	1,213,805	11,050
TOTAL CHARGES TO APPROPRIATIONS	\$ 5,120,625	\$ 5,120,625	\$ 4,255,103	\$ 865,522
BUDGETARY FUND BALANCE--ENDING	\$ 603,365	\$ 603,365	\$ 1,595,004	\$ 991,639

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 153,670	\$ 409,741	\$ 409,741	\$ 0
Resources (Inflows)				
State shared revenues	368,380	368,380	364,755	(3,625)
Interest earned	5,000	5,000	12,817	7,817
Other	0	0	0	0
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 527,050	\$ 783,121	\$ 787,313	\$ 4,192
Charges to Appropriations (Outflows)				
Construction	\$ 80,080	\$ 127,545	\$ 96,467	\$ 31,078
Route maintenance	84,425	84,425	71,493	12,932
Traffic services	0	0	3,991	(3,991)
Signs and signals	16,445	16,445	2,175	14,270
Winter maintenance	128,418	128,418	99,593	28,825
Administration	40,825	40,825	10,385	30,440
Transfers to other funds	<u>0</u>	<u>0</u>	<u>78,250</u>	<u>(78,250)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>350,193</u>	\$ <u>397,658</u>	\$ <u>362,354</u>	\$ <u>35,304</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>176,857</u></u>	\$ <u><u>385,463</u></u>	\$ <u><u>424,959</u></u>	\$ <u><u>39,496</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 13,075	\$ 13,075	\$ 4,787	\$ (8,288)
Resources (Inflows)				
State shared revenues	137,200	137,200	127,955	(9,245)
Interest earned	250	250	89	(161)
Other	0	0	0	0
Transfers from other funds	<u>109,230</u>	<u>109,230</u>	<u>79,590</u>	<u>(29,640)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 259,755	\$ 259,755	\$ 212,421	\$ (47,334)
Charges to Appropriations (Outflows)				
Construction	\$ 82,620	\$ 82,620	\$ 2,673	\$ 79,947
Route maintenance	83,280	83,280	80,725	2,555
Traffic services	0	0	902	(902)
Winter maintenance	74,980	74,980	68,862	6,118
Administration	<u>5,800</u>	<u>5,800</u>	<u>0</u>	<u>5,800</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>246,680</u>	\$ <u>246,680</u>	\$ <u>153,162</u>	\$ <u>93,518</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>13,075</u></u>	\$ <u><u>13,075</u></u>	\$ <u><u>59,259</u></u>	\$ <u><u>46,184</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
SMALL CITIES GRANT LOAN REPAYMENT FUND
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 386,479	\$ 386,479
Resources (Inflows)				
Principal repaid			77,905	77,905
Interest earned			<u>26,654</u>	<u>26,654</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	BUDGET NOT PREPARED	BUDGET NOT PREPARED	\$ 491,038	\$ 491,038
Charges to Appropriations (Outflows)				
General government			\$ <u>0</u>	\$ <u>0</u>
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>0</u>	\$ <u>0</u>
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>491,038</u></u>	\$ <u><u>491,038</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
EQUIPMENT AND CAPITAL IMPROVEMENT FUND
Year ended June 30, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning Fund Balance	\$ 26,742	\$ 26,742	\$ 32,874	\$ 6,132
Resources (Inflows)				
Interest earned	500	500	983	483
Transfers from other funds	<u>844,625</u>	<u>844,625</u>	<u>1,090,000</u>	<u>245,375</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 871,867	\$ 871,867	\$ 1,123,857	\$ 251,990
Charges to Appropriations (Outflows)				
Capital outlay				
Administration	\$ 32,625	\$ 32,625	\$ 9,667	\$ 22,958
Hall and grounds	500,000	500,000	1,055,391	(555,391)
Public safety	45,500	45,500	13,016	32,484
Parks and recreation	73,000	73,000	0	73,000
Public works - other	<u>190,000</u>	<u>190,000</u>	<u>33,170</u>	<u>156,830</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>841,125</u>	\$ <u>841,125</u>	\$ <u>1,111,244</u>	\$ <u>(270,119)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>30,742</u></u>	\$ <u><u>30,742</u></u>	\$ <u><u>12,613</u></u>	\$ <u><u>(18,129)</u></u>

CITY OF KINGSFORD
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2006

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-03	3,599,761	3,880,429	(280,668)	93%	810,886	-35%
31-Dec-04	3,797,453	4,286,323	(488,870)	89%	877,801	-56%
31-Dec-05	3,991,726	4,470,841	(479,115)	89%	830,263	-58%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-03	53,838	100%
31-Dec-04	57,642	100%
31-Dec-05	59,954	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	25 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 10 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.9%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 8.4%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

CITY OF KINGSFORD
POLICE AND FIREMEN'S PENSION FUNDING AND STATISTICS
JUNE 30, 2006

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(UNFUNDED) OVERFUNDED ACTUARIAL LIABILITY	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
30-Jun-03	9,570,603	8,425,630	1,144,973	114%	896,360	-
30-Jun-04	9,525,699	8,883,495	642,204	107%	925,062	-
30-Jun-05	9,399,300	9,333,042	66,258	101%	958,936	-

NOTE - LIABILITY INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
30-Jun-03	148,393	100%
30-Jun-04	184,360	100%
30-Jun-05	222,526	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	INDIVIDUAL ENTRY AGE
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	7.00%
PROJECTED SALARY INCREASES*	4.7% - 8.5%
*INCLUDES MERIT/LONGEVITY INCREASES	0.2% - 4.0%
INFLATION	3%
COST OF LIVING ADJUSTMENT	2.50%
OTHER	2000 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF KINGSFORD
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENT FUNDS
June 30, 2006

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Assets			
Cash and equivalents	\$ 47	\$ 44,537	\$ 44,584
TOTAL ASSETS	\$ 47	\$ 44,537	\$ 44,584
Liabilities and Fund Equity			
Liabilities			
Due to other funds	\$ 30	\$ 0	\$ 30
TOTAL LIABILITIES	\$ 30	\$ 0	\$ 30
Fund Balance			
Unreserved, undesignated	\$ 17	\$ 44,537	\$ 44,554
TOTAL FUND EQUITY	\$ 17	\$ 44,537	\$ 44,554
TOTAL LIABILITIES AND FUND EQUITY	\$ 47	\$ 44,537	\$ 44,584

CITY OF KINGSFORD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENT FUNDS
Year ended June 30, 2006

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	NON-MAJOR GOVERNMENTAL FUNDS
Revenues			
Property taxes	\$ 0	\$ 145,151	\$ 145,151
Interest earned	<u>139</u>	<u>3,485</u>	<u>3,624</u>
TOTAL REVENUES	\$ 139	\$ 148,636	\$ 148,775
Expenditures			
General government	\$ 8,399	\$ 0	\$ 8,399
Debt service	<u>0</u>	<u>144,861</u>	<u>144,861</u>
TOTAL EXPENDITURES	\$ <u>8,399</u>	\$ <u>144,861</u>	\$ <u>153,260</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (8,260)	\$ 3,775	\$ (4,485)
Other Financing Sources (Uses)			
Transfer from other funds	\$ 7,850	\$ 0	\$ 7,850
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ <u>7,850</u>	\$ <u>0</u>	\$ <u>7,850</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (410)	\$ 3,775	\$ 3,365
Fund Balances - beginning	<u>427</u>	<u>40,762</u>	<u>41,189</u>
FUND BALANCE - ENDING	<u><u>17</u></u>	<u><u>44,537</u></u>	<u><u>44,554</u></u>

CITY OF KINGSFORD
WATER UTILITY FUND
BALANCE SHEET
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets:		
Cash and equivalents	\$ 712,927	\$ 1,124,111
Accounts receivable	61,661	48,448
TOTAL CURRENT ASSETS	\$ 774,588	\$ 1,172,559
Restricted Assets:		
Repair and reconstruction fund	\$ 58,194	\$ 55,831
Bond reserve account	46,031	44,280
TOTAL RESTRICTED ASSETS	\$ 104,225	\$ 100,111
Property, plant and equipment:		
Water system	\$ 5,161,124	\$ 4,673,774
Less accumulated depreciation	(2,812,326)	(2,652,702)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,348,798	\$ 2,021,072
TOTAL ASSETS	\$ <u>3,227,611</u>	\$ <u>3,293,742</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 12,889	\$ 12,705
Accrued payroll expenses	17,267	16,000
Accrued interest	5,693	5,805
Due to other funds	41,189	26,490
Current portion of long term debt	10,000	10,000
TOTAL CURRENT LIABILITIES	\$ 87,038	\$ 71,000
LONG TERM DEBT - Bonds payable	\$ <u>496,000</u>	\$ <u>506,000</u>
TOTAL LIABILITIES	\$ 583,038	\$ 577,000
FUND EQUITY		
Contributed capital:		
Federal government - capital grant	\$ 388,300	\$ 419,625
Municipality	1,615,392	1,615,392
Retained earnings:		
Reserved	104,225	100,111
Designated	80,000	570,000
Unreserved, undesignated	456,656	11,614
TOTAL FUND EQUITY	\$ <u>2,644,573</u>	\$ <u>2,716,742</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>3,227,611</u>	\$ <u>3,293,742</u>

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL, BUDGET AND PRIOR YEAR
Years ended June 30, 2006 and 2005

	<u>2005-06</u>			<u>2004-05</u>
	<u>ACTUAL</u>	<u>AMENDED BUDGET</u>	<u>VARIANCE</u>	<u>ACTUAL</u>
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 401,729	\$ 371,320	\$ 30,409	\$ 416,368
Taps, thaws and shutoffs	4,467	1,450	3,017	2,480
Late payment penalties	<u>2,588</u>	<u>0</u>	<u>2,588</u>	<u>3,332</u>
TOTAL OPERATING REVENUES	\$ 408,784	\$ 372,770	\$ 36,014	\$ 422,180
OPERATING EXPENSES				
Source of supply	\$ 105,376	\$ 158,750	\$ 53,374	\$ 102,846
Distribution	193,633	181,650	(11,983)	175,181
Clerical and administrative	32,039	43,735	11,696	32,645
Depreciation	<u>159,624</u>	<u>175,000</u>	<u>15,376</u>	<u>177,447</u>
TOTAL OPERATING EXPENSES	\$ 490,672	\$ 559,135	\$ 68,463	\$ 488,119
NET OPERATING INCOME (LOSS)	\$ (81,888)	\$ (186,365)	\$ 104,477	\$ (65,939)
NON-OPERATING GAINS/LOSSES				
Interest earned	\$ 32,602	\$ 18,000	\$ 14,602	\$ 25,796
Interest expense	<u>(22,883)</u>	<u>(25,000)</u>	<u>2,117</u>	<u>(23,276)</u>
NET INCOME (LOSS)	\$ (72,169)	\$ (193,365)	\$ 121,196	\$ (63,419)
Add depreciation of fixed assets acquired by capital grants	<u>31,325</u>	<u>0</u>	<u>31,325</u>	<u>31,325</u>
INCREASE (DECREASE) IN RETAINED EARNINGS	\$ (40,844)	\$ <u>(193,365)</u>	\$ <u>152,521</u>	\$ (32,094)
Retained earnings - beginning	<u>681,725</u>			<u>713,819</u>
RETAINED EARNINGS - ENDING	\$ <u><u>640,881</u></u>			\$ <u><u>681,725</u></u>

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 395,570	\$ 421,672
Payments to suppliers	(138,703)	(123,804)
Payments to or on behalf of employees	(190,893)	(171,576)
Internal activity-payments from other funds	<u>14,699</u>	<u>6,947</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 80,673	\$ 133,239
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (32,995)	\$ (28,333)
Purchases of capital assets	(487,350)	0
Funding of restricted accounts	<u>(4,114)</u>	<u>(2,141)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (524,459)	\$ (30,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ <u>32,602</u>	\$ <u>25,796</u>
NET INCREASE (DECREASE) IN CASH	\$ (411,184)	\$ 128,561
Cash and equivalents - beginning	<u>1,124,111</u>	<u>995,550</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>712,927</u></u>	\$ <u><u>1,124,111</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (81,888)	\$ (65,939)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	159,624	177,447
Change in Assets and Liabilities		
Receivables - net	(13,213)	(507)
Accounts payable	184	6,364
Accrued payroll expense	1,267	8,927
Due to other funds	<u>14,699</u>	<u>6,947</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>80,673</u></u>	\$ <u><u>133,239</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
LAND SALES, PURCHASE AND DEVELOPMENT FUND
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 427	\$ 427	\$ 427	\$ 0
Resources (Inflows)				
Land sales	0	0	0	0
Interest earned	125	125	139	14
Transfers from other funds	<u>100,000</u>	<u>100,000</u>	<u>7,850</u>	<u>(92,150)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 100,552	\$ 100,552	\$ 8,416	\$ (92,136)
Charges to Appropriations (Outflows)				
Professional fees	\$ 40,000	\$ 40,000	\$ 8,399	\$ 31,601
Land acquisition	<u>60,000</u>	<u>60,000</u>	<u>0</u>	<u>60,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>100,000</u>	\$ <u>100,000</u>	\$ <u>8,399</u>	\$ <u>91,601</u>
	\$ <u><u>552</u></u>	\$ <u><u>552</u></u>	\$ <u><u>17</u></u>	\$ <u><u>(535)</u></u>

CITY OF KINGSFORD
BUDGETARY COMPARISON SCHEDULE
1998 PUBLIC WORKS DEBT SERVICE FUND
Year ended June 30, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance	\$ 40,762	\$ 40,762	\$ 40,762	\$ 0
Resources (Inflows)				
Property taxes	144,867	144,867	145,151	284
Interest earned	<u>0</u>	<u>0</u>	<u>3,486</u>	<u>3,486</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 185,629	\$ 185,629	\$ 189,399	\$ 3,770
Charges to Appropriations (Outflows)				
Debt service	\$ <u>144,862</u>	\$ <u>144,862</u>	\$ <u>144,860</u>	\$ <u>2</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>144,862</u>	\$ <u>144,862</u>	\$ <u>144,860</u>	\$ <u>2</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>40,767</u></u>	\$ <u><u>40,767</u></u>	\$ <u><u>44,539</u></u>	\$ <u><u>3,772</u></u>

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Kingsford
Kingsford, MI 49802

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan (City) as of and for the year ended June 30, 2006, which collectively comprise the City of Kingsford, Michigan's basic financial statements and have issued my report thereon dated September 1, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

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that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated September 1, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

September 1, 2006

SCOTT R. KENNEY

Certified Public Accountant

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Crystal Falls, Michigan 49920
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Honorable Mayor and City Council
City of Kingsford
305 South Carpenter Avenue
Kingsford, MI 49802

In conjunction with the audit of the financial statements of the City of Kingsford as of and for the year ended June 30, 2006, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City of Kingsford's council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Each of the items included in last year's letter of comments and recommendations were satisfactorily resolved.

1. **OBSERVATION** - Per City Council action from several years ago, the City maintains a capital project fund labeled Equipment and Capital Fund. The purpose of the fund is to fund and record expenditures for equipment and other capital projects for the City's governmental funds. Some of the City's expenditures have not been recorded in the other governmental funds.

RECOMMENDATION - I recommend that all capital expenditures from the City's governmental funds be recorded in the Equipment and Capital Fund.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank the City's staff for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

September 1, 2006

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